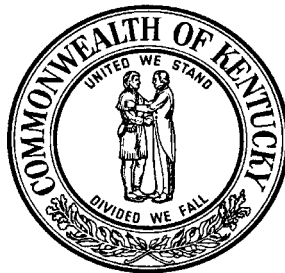


**REPORT OF THE AUDIT OF THE
ROWAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

APRIL 30, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
ROWAN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 30, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Rowan County Sheriff as of April 30, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,767,866 for the districts for 2001 taxes, retaining commissions of \$196,433 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,568,839 to the districts for 2001 Taxes. Taxes of \$1,599 are due to the districts from the Sheriff and refunds of \$2,745 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Clyde A. Thomas, Rowan County Judge/Executive
Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the Rowan County Sheriff's Settlement - 2001 Taxes as of April 30, 2002. This tax settlement is the responsibility of the Rowan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rowan County Sheriff's taxes charged, credited, and paid as of April 30, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 3, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
April 3, 2003

ROWAN COUNTY
JACK CARTER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

April 30, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 320,241	\$ 367,684	\$ 2,312,853	\$ 807,559
Tangible Personal Property	68,016	62,262	290,430	332,569
Intangible Personal Property				53,954
Fire Protection	941			
Taxes Increased Through				
Erroneous Assessments	100	114	720	251
Franchise Corporation	53,503	47,663	289,056	
Additional Billings	591	657	4,275	1,638
Clay Reserves	38	44	276	96
Bank Franchises	41,384			
Penalties	4,802	5,257	28,660	13,673
Adjusted to Sheriff's Receipt	3	22	3	(3)
Gross Chargeable to Sheriff	<u>\$ 489,619</u>	<u>\$ 483,703</u>	<u>\$ 2,926,273</u>	<u>\$ 1,209,737</u>
<u>Credits</u>				
Exonerations	\$ 4,840	\$ 4,798	\$ 29,514	\$ 6,416
Discounts	5,535	5,654	35,363	15,776
Delinquents:				
Real Estate	12,519	14,310	90,155	31,504
Tangible Personal Property	659	541	3,210	3,910
Intangible Personal Property				324
Uncollected Franchise	9,530	9,369	57,539	
Total Credits	<u>\$ 33,083</u>	<u>\$ 34,672</u>	<u>\$ 215,781</u>	<u>\$ 57,930</u>
Taxes Collected	\$ 456,536	\$ 449,031	\$ 2,710,492	\$ 1,151,807
Less: Commissions *	<u>19,690</u>	<u>19,084</u>	<u>108,420</u>	<u>49,239</u>
Taxes Due	\$ 436,846	\$ 429,947	\$ 2,602,072	\$ 1,102,568
Taxes Paid	437,102	431,742	2,598,145	1,101,850
Less: Refunds (Current and Prior Year)	326	368	2,328	899
Add: Penalty From Revenue Cabinet				181
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u><u>\$ (582)</u></u>	<u><u>\$ (2,163)</u></u>	<u><u>\$ 1,599</u></u>	<u><u>\$ 0</u></u>

* and ** see page 4.

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY
JACK CARTER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
April 30, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,047,374
4% on	\$	2,710,492

** Special Taxing Districts:

Library District	\$	(1,053)
Health District		<u>(1,110)</u>

(Refunds Due Sheriff)	\$	<u><u>(2,163)</u></u>
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The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENTS

April 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$475,125 of public funds uninsured and unsecured.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2002
(Continued)

Note 2. Deposits (Continued)

The Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 10, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 2,500,000
Insured by Federal Deposit Insurance Corporation	100,000
Uncollateralized and uninsured	<u>475,125</u>
Total	<u>\$ 3,075,125</u>

Note 4. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2001 through April 30, 2002.

Note 5. Interest Income

The Rowan County Sheriff earned \$2,769 as interest income on 2001 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of April 30, 2002, the Sheriff owes \$1,103 in interest to his fee account.

Note 6. Sheriff's 10% Add-On Fee

The Rowan County Sheriff collected \$25,657 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 7. Advertising Costs And Fees

The Rowan County Sheriff collected \$1,327 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). Since advertising costs were paid from the fee account, the fees were used to reimburse the fee account for advertising costs.

COMMENTS AND RECOMMENDATIONS

ROWAN COUNTY
JACK CARTER, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

April 30, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 10, 2001, \$475,125 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

We will increase.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements.

In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accept the risk for a lack of adequate segregation of duties.

Sheriff's Response:

Okay.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Sheriff Should Eliminate The Cumulative Deficit Of \$1,640 In The Tax Account. This was corrected by the Sheriff depositing a check for personal funds in the amount \$1,640 on February 11, 2002.
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits. This has not been corrected and is commented on above.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Rowan County Sheriff's Settlement - 2001 Taxes as of April 30, 2002, and have issued our report thereon dated April 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's Settlement - 2001 Taxes as of April 30, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 3, 2003

